What is claimed is:

1.   An risk-adjusted pricing method for calculating the value of a derivative:

    a. determining the underlying security;

    b. determining the type of derivative;

    c. determining the risks associated with said derivative;

    d. determining the trading costs associated with said derivative;

    e. formulating the risk-adjusted pricing (RAP) equation for said derivative;

    f. solving said RAP equation for said derivative using numerical methods; and

    g. outputting a value for said derivative based on said solving of said RAP equation.

2. An computer apparatus for calculating values of derivative securities comprising:

    a. an input unit taking an input of derivative characteristics and model parameters;

    b. a processing unit taking said input factors and computing a value for said derivative based on at least one of said inputs using a risk-adjusted pricing equation; and

    c. an output unit displaying said value of said derivative.